



Federal Accounting Standards Advisory Board

**Recognition of the Transfer of Funds Between Interior's
Reclamation Fund and Energy's Western Area Power
Administration:**

**In Accordance with SFFAS 1 *Accounting for Selected Assets and
Liabilities* and SFFAS 5 *Accounting for Liabilities of the Federal
Government***

***Federal Financial Accounting and Auditing
Technical Release***

Exposure Draft

Written comments are requested by September 20, 2004

August 2004

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the Federal Government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, Federal executives, Federal program managers, and other users of Federal financial information. The proposed standards are published in an Exposure Draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statement of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for Federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- ◆ “Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board.”
- ◆ “Mission Statement: Federal Accounting Standards Advisory Board”, Exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB’s website at: www.fasab.gov.

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The Accounting and Auditing Policy Committee

The Accounting and Auditing Policy Committee (AAPC) was organized in May 1997 by the Department of the Treasury, the Office of Management and Budget (OMB), the Government Accountability Office (GAO), the Chief Financial Officers' Council (CFOC), and the President's Council on Integrity and Efficiency (PCIE), as a body to research accounting and auditing issues requiring guidance.

The AAPC serves as a permanent committee established by the Federal Accounting Standards Advisory Board (FASAB). The mission of the FASAB is to set accounting standards after considering the financial and budgetary information needs of congressional oversight groups, executive agencies, and the needs of other users of Federal financial information. The mission of the AAPC is to assist the Federal government in improving financial reporting through the timely identification, discussion, and recommendation of solutions to accounting and auditing issues as they relate to the specific application of existing authoritative literature.

The AAPC is intended to address issues that arise in implementation, which are not specifically or fully discussed in Federal accounting and auditing standards. The AAPC's guidance is cleared by FASAB before being published.



Federal Accounting Standards Advisory Board

August 20, 2004

TO: HEADS OF FEDERAL AGENCIES AND ALL OTHERS WHO USE, PREPARE,
AND AUDIT FEDERAL FINANCIAL INFORMATION

The Accounting and Auditing Policy Committee (AAPC or Committee) of the Federal Accounting Standards Advisory Board (FASAB or the Board) is requesting comments on the exposure draft of a proposed Federal Financial Accounting and Auditing Technical Release entitled, *Recognition of the Transfer of Funds between Interior's Reclamation Fund and Energy's Western Area Power Administration: In Accordance with SFFAS 1 Accounting for Selected Assets and Liabilities and SFFAS 5 Accounting for Liabilities of the Federal Government*. If you do not agree with the proposed approach, your response would be more helpful to the Committee and the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by September 20, 2004.

We have experienced delays in mail delivery due to increased screening procedures. Therefore, please provide your comments in electronic form. Responses in electronic form should be sent by e-mail to comesw@fasab.gov. If you are unable to provide electronic delivery, we urge you to fax the comments to (202) 512-7366. Please follow up by mailing your comments to:

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The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft.

Wendy M. Comes
AAPC Chair

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1 Introduction

2 Purpose

- 3 1. The purpose of this proposed technical release is to provide technical
4 guidance to the Department of Energy (Energy) and the Department of the
5 Interior (Interior) on a difference in their interpretation of the effect of
6 legislation on their application of accounting standards to certain
7 transactions between them. The question posed to the AAPC by the Office
8 of Management and Budget (OMB) is whether Energy should be
9 recognizing a liability to Interior for amounts received from the
10 Reclamation Fund managed by Interior and whether Interior should
11 recognize a corresponding receivable. The objective of this technical
12 release is to provide guidance to Energy and Interior on the consistent
13 application of the current FASAB standards.

14 Scope

- 15 2. This guidance is limited to transactions involving the transfer¹ of funds
16 between Interior's Reclamation Fund and Energy's Western Area Power
17 Administration.
- 18 3. Readers of this technical release should first refer to the hierarchy of
19 accounting standards in Statement on Auditing Standards (SAS) 91,
20 Federal Generally Accepted Accounting Principles Hierarchy (or see
21 AU411). This technical release supplements the relevant accounting
22 standards, but is not a substitute for and does not take precedence over
23 the standards.

24 Effective Date

- 25 4. This technical release is effective immediately.

27 Questions to Respondents

- 28
- 29 5. 1) This exposure draft proposes that Energy/WAPA continue recognizing
30 a liability for the appropriated funds transferred from Interior's Reclamation
31 Fund when the appropriated funds are transferred and that Interior/BOR
32 should recognize an advance/receivable for the same transfer of

¹ The use of the word "transfer" has no significance to the issue here. Transfer means the "shifting of funds from one appropriation account to another as authorized by law". [GAO "A Glossary of Terms Used in the Federal Budget Process" Revised January 1993 (GAO/AFMD-2.1.1).] By itself, the term does not imply the legal characteristic or accounting treatment of a transaction.

appropriated funds at the time of the transfer. Do you agree with this proposal? If not, please explain your reasons and any alternative that you would prefer.

6. 2) Do you believe more technical guidance is needed in this proposal?

The provisions of this Statement need not be applied to immaterial items.

Background

Overview

7. Annual appropriations acts have been appropriating funds to the Western Area Power Administration (WAPA or Western), one of the Department of Energy's (Energy) power marketing administrations (PMA), by transferring funds from the Department of the Interior (Interior) Reclamation Fund (Fund).² The Bureau of Reclamation (BOR) within Interior administers the Fund. These annual transfers provide more than 90 percent of the annual appropriation for WAPA, which performs most of its power marketing functions for power generated by BOR projects.
8. Under a series of laws that have been in place for many years, WAPA earns revenues from the sale of power and deposits revenues to the credit of the Reclamation Fund. Specifically, language enacted in the Department of the Interior Appropriations Act for Fiscal Year 1939 requires WAPA to deposit the revenue it earns from the sale of such power into the Reclamation Fund to the extent necessary to fully repay the Fund for the amounts the Fund previously incurred to support WAPA, *i.e.*, annual transfers to pay for regular operations and maintenance (O&M) and the power-related share of the annual amortized cost of long-term construction projects.³ To ensure a sufficient level of revenue over time, the Reclamation Project Act of 1939 requires WAPA to set rates sufficiently high to enable it to meet its repayment obligations to the Reclamation Fund.⁴
9. Interior and Energy have applied the legislative framework differently to the criteria in applicable accounting standards, resulting in different accounting treatments of the interagency transactions between WAPA and BOR. Interior views the statutory framework as establishing an interagency financing arrangement made up of two independent transactions: (1) a statutory transfer of funds from Interior's Reclamation Fund to WAPA and (2) a statutory direction for WAPA to collect fees and deposit the collections in the Reclamation Fund. Therefore, Interior treats the initial payment to Energy as a transfer-out, with any subsequent

² See, e.g., Department of Energy Appropriations Act for Fiscal Year 2004, Pub. L. No. 108-137, Title III, 117 Stat. 1827 (Dec. 1, 2003), under the subsection titled "Construction, Rehabilitation, Operation and Maintenance, Western Area Power Administration," which states: "For carrying out the functions authorized by title III, section 302(a)(1)(E) of the Act of August 4, 1977 (42 U.S.C. 7152), and other related activities including conservation and renewable resources programs as authorized, including official reception and representation expenses in an amount not to exceed \$ 1,500, \$ 177,950,000, to remain available until expended, of which \$ 167,236,000 shall be derived from the Department of the Interior Reclamation Fund . . ."

³ See Department of the Interior Appropriations Act for Fiscal Year 1939, Pub. L. No. 75-497, 52 Stat. 291, 322 (May 9, 1938)(*codified at* 43 U.S.C. § 392a).

⁴ See The Reclamation Project Act of 1939, Pub. L. No. 76-260, 53 Stat. 1187, 1194-95 (Aug. 4, 1939)(*codified at* 43 U.S.C. § 485h(c)).

1 receipts that are received from Energy power sales recorded as a transfer-
2 in. On the other hand, Energy has interpreted the relevant laws to
3 establish a relationship between the transfer from the Reclamation Fund
4 and payments from WAPA to the Fund such that there is a legal
5 requirement to repay the full amount received from Interior, plus interest⁵
6 on capital investments in transmission facilities. Consequently, Energy
7 records a liability to Interior upon receipt of the appropriated funds.

8 Current Accounting Treatment

9 10. The following paragraphs are a summary of how Energy and Interior,
10 respectively, describe their current accounting treatment.

11 11. Western receives the transfer of appropriations from the Reclamation
12 Fund to support its transmission of power to its customers. The investment
13 in power transmission (plus interest) is factored into the power rate and is
14 recovered by Western and returned to the Reclamation Fund. Energy
15 policy states that the capital investment may be recovered over a period
16 as long as 40 years while the operations and maintenance costs are
17 recovered in the year in which the expense is incurred. Energy currently
18 accounts for the appropriation and the interest on construction as a liability
19 owed to Interior's Reclamation Fund and records the amount in SGL 2990
20 – Other Liabilities. Energy views the substance of the interagency
21 transaction as requiring repayment of the amount it receives from the
22 Reclamation Fund.

23 12. Interior disagrees that the applicable laws establish a repayment
24 requirement. When appropriated funds are transferred to Western as
25 provided by appropriations acts, Interior records a financing source
26 transfer by debiting SGL 5745 – Appropriated Earmarked Receipts
27 Transferred Out, and crediting their Fund Balance with Treasury. Interior
28 views this transfer-out as a separate event from the transfer-in of receipts
29 that are collected by Western from power sales. Interior does not believe it
30 has a recognizable receivable until Western collects power receipts.
31 Receipts coming from Western to the Reclamation Fund are recorded in
32 one of two ways. Power transmission revenue that is earned by Western
33 is credited to SGL 5750 – Expenditure Financing Sources Transfers In.
34 Western also collects custodial revenues from power generation activities
35 performed by Interior. Interior treats these receipts from Western as a
36 credit to 5200 – Revenue for Services Provided.

⁵ The authority to collect interest on construction costs is described in Section 9(c) of the Reclamation Project Act of 1939.

Legal Framework

13. The Reclamation Fund has existed for more than a century as a unique funding source and receipt account. The Reclamation Act of 1902 established the Reclamation Fund as a “special fund” to pay for irrigation works for the reclamation of arid lands.⁶ Over the years, Congress provided for a variety of proceeds and fees to be deposited into the Fund. *E.g.*, 43 U.S.C. §§ 392, 393, 394.
14. In 1938, almost four decades after the Reclamation Fund was established, the Congress added to the Fund’s financing sources the revenues from the sale of power from irrigation projects. Specifically, the Department of the Interior Appropriations Act for Fiscal Year 1939 provided that “[a]ll moneys received by the United States in connection with any irrigation projects, including the incidental power features thereof, constructed by the Secretary of the Interior through the Bureau of Reclamation, and financed in whole or in part with moneys heretofore or hereafter appropriated or allocated therefor by the Federal Government, shall be covered into the reclamation fund.” The appropriations act further provided that “after the net revenues derived from the sale of power developed in connection with any of said projects shall have repaid those construction costs of such project allocated to power to be repaid by power revenues therefrom and shall no longer be required to meet the contractual obligations of the United States, then said net revenues derived from the sale of power developed in connection with such project shall, after the close of each fiscal year, be transferred to and covered into the General Treasury as ‘miscellaneous receipts.’”⁷
15. The next year, Congress made clear that the Secretary of the Interior had an obligation to recover the full cost of selling electric power generated at BOR projects from the power customers. Of particular interest, section 9(c) of the Reclamation Project Act of 1939 stated that “[a]ny sale of electric power or lease of power privileges, made by the Secretary in connection with the operation of any [BOR] project or division of a project, shall be for such periods, not to exceed forty years, and at such rates as in his judgment will produce power revenues at least sufficient to cover an appropriate share of the annual operation and maintenance cost, interest on an appropriate share of the construction investment at not less than 3 per centum per annum, and such other fixed charges as the Secretary deems proper.”⁸

⁶ Pub. L. No. 57-161, 32 Stat. 388 (June 17, 1902)(codified at 43 U.S.C. § 391).

⁷ Pub. L. No. 75-497, 52 Stat. 291, 322 (May 9, 1938)(codified at 43 U.S.C. § 392a).

⁸ Pub. L. No. 76-260, 53 Stat. 1187, 1194-95 (Aug. 4, 1939)(codified at 43 U.S.C. § 485h(c)).

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- 1 16. WAPA arrived on the scene four decades later with enactment of the
2 Department of Energy Organization Act of 1977.⁹ The 1977 Act
3 established the Department of Energy and transferred to it some of
4 Interior's functions. Of particular interest here is section 302(a)(1)(E) of
5 the Act, which "transferred to, and vested in, the Secretary [of Energy] all
6 functions of the Secretary of the Interior . . . and officers and components
7 of the Department of the Interior, with respect to – the power marketing
8 functions of the Bureau of Reclamation, including the construction,
9 operation, and maintenance of transmission lines and attendant facilities."
10 Also, section 302(a)(3) of the Act authorized the Secretary of Energy to
11 establish and maintain such regional offices as necessary to facilitate the
12 performance of the transferred functions. Pursuant to this authority, the
13 Secretary of Energy in December 1977 created WAPA with the primary
14 purpose of performing the power marketing functions that were formerly
15 performed by BOR.
- 16 17. Before WAPA existed, Congress appropriated money to BOR for both
17 irrigation and power marketing activities related to BOR projects with the
18 funding to be derived from the Reclamation Fund. After Congress
19 transferred BOR's power marketing functions to WAPA, Congress
20 maintained essentially the same funding structure, namely that WAPA's
21 power marketing functions are financed from the Reclamation Fund and
22 revenues WAPA receives from power generated by BOR irrigation
23 projects are paid to the Fund.
- 24

⁹ Pub. L. No. 95-96, 91 Stat. 797 (Aug. 4, 1977)(*codified at* 42 U.S.C. § 7152).

Technical Guidance

18. The question posed to the AAPC by OMB is whether Energy/WAPA should be recognizing a liability for amounts received from the Reclamation Fund, which is managed by Interior. In addition, should Interior/BOR be recognizing a corresponding advance/receivable?

19. SFFAS 5, *Accounting for Liabilities of the Federal Government*, states the following:

“19. A liability for federal accounting purposes is a probable future outflow or other sacrifice of resources as a result of past transactions or events.”

“22. An exchange transaction arises when each party to the transaction sacrifices value and receives value in return. There is a two-way flow of resources or promises to provide resources. In an exchange transaction, a liability is recognized when one party receives goods or services in return for a promise to provide money or other resources in the future.”

20. SFFAS 1, *Accounting for Selected Assets and Liabilities*, states the following:

“41. A receivable should be recognized when a federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date (e.g., taxes not received by the date they are due), or goods or services provided. If the exact amount is unknown, a reasonable estimate should be made.”

21. One of the considerations significant to the conclusions outlined in this proposed technical release is the point that the revenues that Energy must pay to the Reclamation Fund are statutorily related to the amount of the advances Energy received from the Reclamation Fund and the excess revenues are to be deposited into the Treasury. Therefore, the AAPC concludes, based on the principles outlined in SFFAS 1 and 5, that Energy/WAPA is correctly recognizing a liability for the appropriated funds transferred from Interior's Reclamation Fund when the appropriated funds are transferred. The Committee further concludes that Interior/BOR should properly recognize an advance/receivable for that same transfer of appropriated funds at the time of the transfer. In addition, Energy and

1 Interior should be sure to make adequate disclosures in accordance with
2 GAAP as it relates to this transaction.

3

Basis for Conclusions

Relevant Event

22. The AAPC's deliberations included discussions on the appropriate point of recognition for the advance/receivable and the liability in this transaction scenario. The question was posed, "what is the relevant event that triggers the recognition?". Interior believes that the receivable and liability should be recognized when the power fees are due to WAPA from the power customers. Interior says that its "claim" to those funds is established at the point those power fees are earned by WAPA.
23. A majority of the Committee believes that the proper point of recognition is at the point the funds are transferred from Interior's Reclamation Fund to WAPA because of the requirement for repayment. The Committee noted that the "power fee-collecting event" only affects the timing of the repayment, not the requirement to repay.

Substance Over Form

24. The financing arrangement in which one government entity (WAPA) receives transfers from, and uses revenues to repay the transfers to, a revolving fund in another government entity (BOR) is not typical. Also, the resulting transactions do not fit neatly into traditional notions of assets, liabilities, debt and loans. The transactions between WAPA and BOR contain characteristics of both the interdependent arrangement advocated by Energy and the independent arrangement advocated by Interior.
25. Based on the information provided by both Energy and Interior, the staff research, including review of a Comptroller General Decision [B-303180 dated July 26, 2004] issued in response to an Interior request and the analysis presented below, a majority of the AAPC members believe that on balance the statutory framework makes the transactions more interdependent and reflective of the Congress' intention for WAPA to repay the transfers from the Reclamation Fund than not. Members noted that even though the legislative language does not specifically state that the transaction is a debt transaction between WAPA and BOR, the statutory framework requires repayment and therefore a liability and advance/receivable should be recognized.

Analysis

26. The statutes discussed in the preceding Legal Framework section establish the essential framework for the transactions between the
-

1 Reclamation Fund and WAPA. The Department of the Interior
2 Appropriations Act for Fiscal Year 1939 establishes the obligation to
3 deposit revenues from power customers for power generated by BOR
4 projects into Interior's Reclamation Fund. That law draws a direct
5 relationship between the moneys spent from the Reclamation Fund and
6 the revenues deposited into the Fund. When power revenues are no
7 longer needed to repay the Fund, then net revenues are to be deposited
8 into the Treasury as miscellaneous receipts. In addition to directing where
9 to put the money received in relation to the sale of power generated at
10 BOR projects, Congress directed in the Reclamation Project Act of 1939
11 that rates should be set sufficiently high that the Reclamation Fund would
12 be fully reimbursed for money it had previously advanced to support
13 power marketing functions for power generated at BOR facilities.

14 27. There is little dispute that before the Department of Energy Organization
15 Act of 1977 and WAPA's assumption of BOR's power marketing
16 responsibilities, there were no issues of payables and receivables. BOR
17 was the only agency involved in spending money from the Reclamation
18 Fund for power marketing activities and then depositing revenues to the
19 credit of the Fund. Neither then nor now is there any issue of assets and
20 liabilities with respect to the government's transactions with the public.¹⁰
21 The issue is whether within the government itself, WAPA's assumption of
22 BOR's power marketing responsibilities conducted within the statutory
23 framework first established for BOR itself results in transactions that best
24 can be characterized as creating payables and receivables for financial
25 reporting purposes.

26 28. When WAPA assumed BOR's power marketing responsibilities, Congress
27 of course could have chosen to provide funds to WAPA with
28 appropriations from the general fund of the Treasury and to require that all
29 revenues be deposited to the Treasury as miscellaneous receipts.
30 Congress, however, chose to retain the use of the Reclamation Fund for
31 this purpose even though the Reclamation Fund is in Interior and the
32 corresponding function is in Energy. In so doing, Interior and Energy
33 operate under a statutory arrangement in which each year Interior
34 transfers specific amounts from its Reclamation Fund to Energy and
35 Energy pays revenues it receives to the Fund. By itself, this might not
36 suggest the existence of debt with corresponding recognition of
37 advance/receivables and payables. It is, of course, not rare to find

¹⁰ Notwithstanding the statutory direction to charge rates sufficient to recover certain costs, BOR did not have an asset for the revenues it would receive in the future from the public to recover costs incurred except to the extent it had sold power but not yet been paid. And of course, there was no potential offsetting liability – BOR could not owe itself and no ratepayer had any liability to BOR or the Fund except to the extent the ratepayer had purchased but not yet paid for power.

1 government activities paid for out of a revolving or other fund and any
2 revenues resulting from those activities being deposited to the credit of the
3 fund. But one of the considerations significant here is that the revenues
4 Energy must pay to the Reclamation Fund are statutorily related to the
5 amount of the advances Energy received from the Reclamation Fund;
6 excess revenues are to be deposited into the Treasury. This statutory
7 relationship of advances from and repayments to the Reclamation Fund is
8 more characteristic of a liability than typical intergovernmental financing
9 arrangements.

- 10 29. It is not enough to assert that there is no debt simply because there is no
11 debt instrument or other negotiated document that commits Energy to
12 paying the Reclamation Fund a specific amount of money at specific
13 intervals. As agencies within the federal government, Congress by statute
14 may determine the financial relationship among agencies. Here,
15 Congress has by statute committed WAPA to repay the Reclamation Fund
16 all the amounts WAPA receives from the Fund for power marketing
17 purposes. The fact that Congress has limited the source of the amount
18 WAPA must repay each year to the power revenues WAPA receives does
19 not negate the existence of the commitment Congress has legislated.

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